Rate Change Summary
Requested Rate Increases: 33.7% ranging from 25.7% to 50.7%: 3,977 policy holders

Final Determination:

The Company resubmitted their 2017 rate filing to correct the exchange fee and GAP assessment assumption used in the development of the proposed 2017 rates. The originally submitted rate filing's state tracking number is 2016-006483-R and was for an average rate increase of 33.7%. The resubmitted rate filing has state tracking #: 2016-006594-R. After the correction of the exchange fee and GAP assessment assumptions, the average requested rate increase in the resubmission is 31.0%. We recommend approval of the Company's resubmitted 2017 rate filing 2016-006594-R.

Filing Note, Issues and/or Concerns

The Company's requested rate increase of 33.7% was driven primarily to the following pricing assumptions:

- Starting experience used in the rate development (46.6% higher than the starting experience used in the development of the Company's 2016 rates
- Company's risk adjustment transfer payment
- Incorrect GAP assessment & Exchange fees.

Actuarial Rate Review Summary

The assumed trend used in the current rate development is 6.8% annually compared to 5.6% used in the previous rate filing. We requested and were provided trend support from the Company. If additional time would have permitted, we most likely would have requested additional trend support; however, given the limited remaining time to complete the review and because a 6.8% trend assumption is within the range of typical trend assumptions we've seen in 2017 rate filings, we have decided to allow this assumption without requiring additional support.

The proposed 2017 rate development uses the Company's own 2015 individual Nongrandfathered experience, which includes both ACA compliant and transitional experience. The Company applied an adjustment factor of 6.3% to account for the removal of the healthier transitional experience. This is a typical assumption and appears reasonable. The other morbidity adjustment factor of -18.2% was applied to account for the fact the Company has decided to no longer issue PPO products in 2017. The Company stated the PPO experience was considerably worse than the HMO plan's experience and decided to discontinue its PPO plans for 2017 because "the rate action needed on the PPO product to result in any profit was so large that the product would not be viable even after consideration of the risk adjustment transfer." The Company is not mapping its PPO membership to any of its proposed 2017 HMO plans. The Company assumes the majority of this membership will go to other Companies in the market.

When asked why the Company is assuming it will be healthier than the market in 2017, resulting in a risk adjustment payment in light of actual results shown in the release of the final 2015 risk adjustment report, the Company once again referenced the elimination of its PPO product in 2017 as the justification. While we believe the Company's assumption may be aggressive, it does make logical sense that its relative risk to the market would improve. Given the limited remaining review time for the current filing, we believe it's reasonable to accept the Company's assumption however the risk adjustment assumption should be given additional scrutiny during future rate submissions.

<u>Additional filing notes based on review</u>

- Experience: The starting claim costs used in the development of the proposed rates are by far the biggest driver of the proposed rates. Last year's starting claim costs was $309.76 compared to the $458.01 used in the current rate filing, representing a 47.9% increase.
    - The Experience used in the current rate development is the Company's actual 2015 Nongrandfathered individual experience, which is a combination of transitional and ACA compliant plans. The Company had 151,156 Member months this year (14,297 transitional, 136,859 ACA). There were 255,681 MMs in last year's rate filing.
    - Loss ratios were 125.1% for ACA and 65.1% for transitional.
    - Current 2016 experience is running at 80% but given risk adjustment payments will again be likely for 2016, this should result in much higher losses
- Morbidity adjustment: The morbidity adjustment applied to the 2015 experience is a -13.1%.
    - This adjustment includes a 6.3% load to account for the removal of transitional experience and an -18.2% to account for morbidity change for the anticipated 2017 ACA population compared to 2015 population in the experience period. We need additional support for the development of these factors.
- Risk Adjustment: The Company's risk adjustment assumption looks unrealistic given actual results. It is also noted that it has assumed to be a risk adjustment payer in past rate filings but actual results show they have been a risk adjustment receiver. asked for support.
    - the Company is assuming they will be a net risk adjustment payer of $23.21 in 2017, meaning it anticipates being healthier than the market.

    - This is similar to what was assumed in the 2016 rate development, which was a net payer of $22.51. Given this is similar to what is being assumed in the current filing, it’s not actually driving the rate increase however it may still be wrong and needs to be supported.
    - The Company assumed no risk adjustment in 2014 but was a net receiver of $4.51 meaning they were sicker than the market.
    - The Company assumed to be a net payer of $22.85 in the development of the 2015 rates but they actually received $22.52, meaning they were sicker than the market.
- Trend: The current trend assumption is 6.8% annually compared to the 5.6% annual trend assumed in the previous filing. Requested additional support for the trend assumption.
- Network adjustment factor: This factor is a decrease of approx. 3% compared to 2015 but is higher than 2016’s factor so is adding about 5% to the rate increase.
- Profit margin: The assumed profit margin went up from 3.2% last year’s assumption to 4.2% this year.